৹# COST *and* MANAGEMENT

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Mr. Hamilton was born and educated in Montreal and was graduated from McGill University in 1934 with the degree of Bachelor of Commerce. In the following year, he attained the degree of Chartered Accountant and after a period with a firm of chartered accountants, joined C.I.L. Secretarial Department in 1937. He was appointed Chief Accountant of the Company in 1946 and since 1949 has held the position of Assistant Treasurer.

Mr. Perowne was born in Montreal and educated at the Town of Mt. Royal High School and McGill University. He is well known as an outstanding amateur athlete, having been Canadian Intercollegiate All Star Quarterback for three years at McGill University.

His first job after graduation was Athletic Director at Lower Canada College when during the summer holidays he got his first training in the textile business with Dominion Textile Company Ltd. He served with R.C.N.V.R. from 1941 until the end of the war when he was discharged with the rank of Lieutenant.

Upon his return to civil life, he rejoined Dominion Textile Co. Ltd. and he now holds the position of Manager of the Industrial Relations Department.

REGULAR DEPARTMENTS

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SOCIETY NOTES

THE SUBSTANCE OF THINGS HOPED FOR

At the time of going to press, some 1,600 students will again be taking up their studies with the hazy vision of an R.I.A. certificate off on the horizon, while at closer range and in sharper focus is the cold reality of hard work and concentrated effort. To some, the vision will become clearer and gradually they will see their name take form on that certificate. The hours of study will slip into the forgotten past and the suspense and uncertainty give way to a warm feeling of worthwhile achievement.

To the Society, these students represent "the substance of things hoped for". Not only are they the future of our Society and all we hope it will be, but in them is made manifest the heritage of a higher standard of accounting practice in industry. A formal educational programme such as ours is the most concrete form in which the Society can "promote and increase the knowledge and proficiency of its members in all things relating to cost and industrial accounting, business organization and management — to contribute towards the improvement of technical methods to the end that the cost and accounting functions may become increasingly valuable as a guide to management."

Any formal educational programme is a long term project, particularly in Canada where it must have acceptance in all ten provinces if it is to follow a uniform pattern throughout the country. It is therefore rather significant that it was only in 1941 when the first of the private bills were passed in Ontario and Quebec enabling the Society to launch upon this tremendous project. Now, ten years later, there are Societies in all ten Provinces, each empowered by their respective legislatures to give effect to this programme. This in itself has been a tremendous undertaking, but to give meaning and substance to the designation "Registered Industrial & Cost Accountant" it has been necessary to develop study courses of a very high standard based on syllabi which would be acceptable in all Provinces. This has been achieved through the combined efforts of leading

educational authorities and business executives representing every Province.

Apart from the quality of the courses, possibly the most interesting feature which has come out of our educational work, is the widespread co-operation which the Societies have received from the universities in all Provinces. It may be interesting to note the universities which are giving lectures in preparation for R.I.A. students. They are as follows:—

University of British Columbia, Vancouver; Victoria College, Victoria; University of Alberta, Edmonton; Alberta College, Calgary; University of Saskatchewan, Saskatoon, Regina, Moose Jaw; University of Manitoba, Winnipeg; Lakehead Technical Institute, Port Arthur; University of Western Ontario, Windsor; McMaster University, Hamilton; University of Toronto, Toronto; Carleton College, Ottawa; McGill University, Montreal; Sir George Williams College, Montreal; Bishops University, Lennoxville; Shawinigan Technical Institute, Shawinigan Falls; Laval University, Quebec City; Dalhousie University, Halifax.

PROPOSED PROFESSIONAL QUALIFICATION IN MANAGEMENT ACCOUNTANCY

Members of the Institute of Cost and Works Accountants have before them a scheme to establish the Fellowship grade of the Institute as a qualification in Management Accountancy. This scheme, when approved, will provide a qualification of high standing that will benefit the accountancy profession as a whole and provide reliable evidence to industry of competence and experience in management accountancy.

The Institute will thus award two grades of Membership, viz., the Associate Member, as at present, for a qualified cost accountant, and the Fellow Member for a qualified management accountant. Both grades of Membership are, as in the past, open to members of other recognized professional accountancy bodies.

Post-war experience has emphasized the importance of the dynamic functions of the accountant in industry in providing management with the means of efficient day-to-day control of the operations of a business undertaking.

New Members

HAMILTON CHAPTER

Jack E. Hall, Firestone Tire & Rubber Co. of Canada Limited

KENT COUNTY CHAPTER

A. C. Lyons, Silverwood Dairies Ltd.

KINGSTON CHAPTER

Mrs. Amy J. Huggard, 179 Alfred St., Kingston, Ont.

KITCHENER CHAPTER

Roy O. Hall, Buehler Metal Products Ltd., Hespeler, Ont.

LONDON CHAPTER

F. W. Ford, Silverwood Dairies Ltd.

TORONTO CHAPTER

R. N. Taylor, Ditto of Canada Ltd.
C. H. Chandler, Dominion Wheel & Foundries Ltd.
William A. Irwin, The Diversey Corporation (Can.) Ltd.
Cyril L. Price, Toronto Elevators Ltd.
E. Chester Hamlin, Rogers Majestic Radio Corp.

WINDSOR CHAPTER

Wm. C. McIvor, Kelsey Wheel Company Ltd.
D. D. Hickson, John Wyeth & Brothers (Canada) Limited

MONTREAL CHAPTER

Y. M. Borduas, Volcano Ltd., St. Hyacinthe, Que.
Jacques Champagne, Dufresne, McLagan & Associates Reg'd.
F. G. Carbray, Dept. of National Revenue, Income Tax Dept.
E. O. Harnish, The Steel Company of Canada Limited
Wm. Ferguson, Northern Electric Co. Ltd.
R. Holmes, Northern Electric Co. Ltd.
K. Dichow, Burroughs Adding Machine of Canada Ltd.

C & M ROUND-UP

by N. R. BARFOOT, R.I.A.

HOUSING

Credit controls have had a serious effect on new housing.

A drop of 41.5% in new house permits is recorded for July.

There is a decrease of 63% in the same month for N.H.A. loans.

Due to a large 1950 backlog, there will be a relatively high number of houses completed this year.

The real effect will be felt in '52 and '53. No doubt real pressure will be put on the Federal House to relax money controls, at least in the Housing Field.

As the only effective brake on inflation and as a means of diverting workers from consumer goods industries to defence plants, it is most unlikely that Ottawa will listen to any easing of the situation.

Inflation at the moment is higher in Canada than in the U.S., due to the huge capital outlay program partly financed from across the line. This situation will not be helped by easing money credit, which would cause more production of consumer goods to meet purchasing demand.

GROSS NATIONAL PRODUCTION

Original 1951 Estimate	20	Billions
Present 1951 Estimate	20¾	Billions

The large Western Canada grain crop has brought about the increased estimate. The general effect will be to enlarge Government revenues and further increase the already estimated large surplus.

AIRPLANE DEFENCE ACTIVITY

Federal Budget for Aircraft	500	Million
New Planes	408	Million
Repairs and Upkeep	92	Million
Present Employment by Prime Aircraft Industries (Only)	18,000	

Largest part of money for new planes will be spent on twin-engine jet CF-100 fighter and F-86 jet fighter.

BUSINESS FAILURES

The second quarter of 1951 showed an increase in business failures over last year's comparative period and the first quarter of this year.

Total liabilities recorded were nearly 4.6 million. The Retail Trade showed the greatest number of failures in the 5 classifications as issued by Dun & Bradstreet.

QUEBEC BOOM

Since the war, 4,000 new industries have located in the Province of Quebec.

The list of raw materials is almost endless — 70% of world's asbestos; 35% of world's aluminum; pulp for 20% of newsprint used and soon most of the world's titanium.

With an abundance of cheap electric power, wood and limestone, there is tremendous development in manufacture of plastics and synthetics, such as nylon, cellophane and rayon.

The bulk of Canada's chemicals are produced here and expansion in this and the refining field are measured in terms of millions.

TOBACCO STATISTICS

Value of Leaf Grown	50 Million
Number of Workers	30,000
Number of Growers	3,700
Yield	110 Million Pounds
Under Cultivation	105,000 Acres

SAVINGS BONDS

A new issue is available November 1st, bearing 10 interest coupons.
Rate of return over full term is 3.21%.
In the first year, 2%.

	%		%
First	2.00	Sixth	3.03
Second	2.17	Seventh	3.09
Third	2.60	Eighth	3.13
Fourth	2.82	Ninth	3.17
Fifth	2.94	Tenth	3.20
10 Years, 9 Months	3.21		

The idea is to encourage investors to hold their securities longer and to discourage cashing of present 2¾% bonds in favour of new issue.

EUROPEAN INVESTMENT

D.B.S. figures show for first 5 months of this year, a balance of 18.4 millions in sales of Canadaian securities abroad. In all of 1950, this figure was 5.4 millions and the previous year, 1.3 millions.

The Swiss Corp. of Canada Investments Ltd. has been set up in Montreal.

Belgian financial interests have acquired control of an investment trust company.

The basic industries such as steel, oil, mines and so on are the favoured issues.

In addition, a great deal of direct investment has been made and particularly, by the United Kingdom.

Current Articles of Interest to Industrial Accountants

ACCOUNTING — Milestones on the Path of Accounting — by Percival F. Brundage — Harvard Business Review — July 1951.

ASSETS — Control of Assets — by W. G. Leonard — The Canadian Chartered Accountant — August 1951.

AUTOMOBILES — Business Management in the Automotive Industry — by B. A. Gunn — The Canadian Chartered Accountant — August 1951.

BUDGETS AND BUDGETING — A Budget for Indirect Costs Any Plant Can Use — by W. F. Clancy — Factory Management and Maintenance — August 1951.

CAPITAL — Trends in Capital Investment in Canada — by Gerald C. Ryan — The Canadian Chartered Accountant — August 1951.

COST ACCOUNTING — Reduction of the Cost of Accounting — by A. Butterworth, F.C.W.A. — The Cost Accountant — August 1951.

EDUCATION AND TRAINING — Educating the Administrative Accountant for the Field of Controllership — by David F. Devine — The Controller — August 1951.

EXECUTIVE COMPENSATION

The Bonus as an Incentive in Management Motivation — by Merle C. Hale — American Management Association — Financial Management Series No. 97.

How Much Should an Executive be Paid? — by Arch Patton — American Management Association — Financial Management Series No. 97.

Incentive Compensation for Executives: Philosophy and Practice — by Joseph B. Hall — American Management Association — Financial Management Series No. 97.

Patterns of Executive Compensation — by Andrew R. Towl — Harvard Business Review — July 1951.

HOSPITAL ACCOUNTING — The Inclusion of Depreciation of Hospital Plant and Equipment with Operating Costs — by Julian S. H. Weiner, C.P.A. — The N.Y. Certified Public Accountant — August 1951.

INCENTIVES — Labor-Management Partnership Through Profit Sharing — by Strange J. Palmer — American Management Association — Personnel Series No. 140.

INDUSTRIAL RELATIONS — Communication in the Work Group — by Harriet O. Ronken — Harvard Business Review — July 1951.

INSURANCE — A Corporate Insurance Check List — by Sid Marean — The Controller — August 1951.

INVENTORIES

Executive Inventory Control — by James C. Worthy — The Controller — August 1951.

The Need for Agreement on a Uniform Basis of Inventory Valuation — by H. T. McAnly — The Controller — August 1951.

JOB EVALUATION — Simplified Job Evaluation — by Ralph W. Ells — American Management Association — Personnel Series No. 140.

NON-PROFIT CORPORATIONS

The Application of the Principles of Accounting to Account Keeping for Non-Profit Institutions — by Max Wasser, C.P.A. — The N.Y. Certified Public Accountant — August 1951.

The Nature of Non-Profit Institutions Accounting — by Earle L. Washburn, C.P.A. — The N.Y. Certified Public Accountant — August 1951.

Non-Profit Institutions Accounting — The N.Y. Certified Public Accountant — August 1951.

OFFICE ORGANIZATION AND MANAGEMENT

Charting Clerical Operations for Analysis of Clerical Functions — by A. G. Whaley — American Management Association — Office Management Series No. 128.

A Program for Office Expansion — by Gordon L. Williams — American Management Association — Office Management Series No. 128.

The Office Operations Budget — by Raymond B. Grean — American Management Association — Office Management Series No. 128.

OVERHEAD — The Assignment of Non-manufacturing Costs to Products — N.A.C.A. Bulletin — August 1951 — Section 4.

PERSONNEL

Planned Executive Development: The Experience of Sears, Roebuck and Co. — by James C. Worthy — American Management Association — Personnel Series No. 137.

The Use of Tests in the Selection of Supervisors — by Herbert M. Myer and Greydon M. Worbois — American Management Association — Personnel Series No. 137.

PRODUCTION CONTROL — Workers Clip Coupons to Control Production — Factory Management and Maintenance — August 1951.

PRODUCTION ENGINEERING — The Measurement of Productive Efficiency — A Preliminary Report by a Sub-committee of the Incorporated Accountant's Research Committee — Reprinted from Accounting Research — Cambridge University Press.

PRODUCTIVITY — Productivity Through Understanding — by Otis C. McCreery — American Management Association — Personnel Series No. 140.

REPORTS — Communication in the Work Group — by Harriet O. Ronken — Harvard Business Review — July 1951.

SELLING AND DISTRIBUTION — The Costing of After-sales Service, — by C. R. Warren, A.C.W.A., A.A.C.C.A. — The Cost Accountant — August 1951.

UNIVERSITIES — Budgetary Control for Colleges and Universities — by Howard A. Withey, C.P.A. — The N.Y. Certified Public Accountant — August 1951.

ADDRESS OF PUBLICATIONS

American Management Association — 330 West 42nd Street, New York 18, N.Y.

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The New York Certified Public Accountant — 677 Fifth Ave., New York 22, N.Y.

The Controller — 1 East 42nd Street, New York 17, N.Y.

The Cost Accountant — 63 Portland Place, London W. 1, England.

Factory Management and Maintenance — 330 W. 42nd St., New York 18, N.Y.

Harvard Business Review — Gallatin House, Soldiers Field, Boston 63, Mass.

N.A.C.A. Bulletin, 505 Park Ave. (Fourth Floor), New York 22, N.Y.

INTERNATIONAL MANAGEMENT EXCHANGE LETTER

SUBJECT: COMMUNICATIONS

This letter discusses the highlights of some methods being developed by American management to set up better communications between themselves and their supervisors and employees in the interest of more stable labor-management relationships and increased productivity.

Scientific management, in the sense of line and staff organization, industrial engineering, and personnel administration has had a long history of application in the United States. Lately, however, the major area of challenge to management here has become its labor and employee relations. Organizations have increased in size, their operations have become technically complex and highly specialized; the individual worker is frequently remote from his management and from the end result of his work; his place in the picture seems to have diminished as his job has narrowed in scope. In this situation, communications are not only essential so that each man can perform his role intelligently and in co-ordination with others but, perhaps more importantly, so that his contact with his management and the world around him is restored.

The interest of American management in communications — two-way communications — upward from its supervisors and employees as well as downward, has therefore arisen in response to an imperative need to complement the traditional methods of scientific management with new human relations techniques.

At the present time, moreover, American management is deeply involved in plans for meeting the industrial and manpower mobilization demands of the international crisis. Predicted shortages of manpower and material are focusing attention on ways to increase individual productivity and quality performance, on employee training methods, and on the development of executive and supervisory replacements. New approaches to the last war's problems of absenteeism and labor force pirating are also being studied. And with it all, managements in most companies once again face the problem of maintaining uninterrupted production despite mounting demands by organized labor for more liberal wage and welfare plans.

In this picture — with business at a high level, with wages, profits, sales, production, employment (and taxes) pushing toward new peaks, and with inflation a growing danger, the challenge of employee relations was never greater. And here, too, the possibilities of two-way communications are being exhaustively explored.

The problem presented to management in America to-day, therefore, is to analyze the forces affecting job interest and effective organization in its particular company and create specific two-way communications systems suitable to its needs.

Management has used a number of different approaches to meeting the problem, but experience has shown that one of the best is to start with what is called an attitude and personnel administration audit. This normally consists of two parts.

1. Skilled interviewers hold personal, confidential interviews with all members of management, a heavy proportion of supervisors and a representative sample of employees to discuss what they think can be done to improve human relations and efficiency in the plant. (In complex organizations, with many plants, departments or a wide range of skills, a questionnaire often follows these non-directed interviews to pin-point differences and quantify the results.)
2. At the same time, personnel experts examine the adequacy of the management policy and of the administrative machinery in use, including all aspects of "classical" personnel policy and practice.

The results of this audit, of course, vary in each company as to detail and degree, but in our experience, for example, we have typically found:

a. Dissatisfaction (even confusion) among management and supervision over the amount of authority delegated to them and the policies governing their activities.
b. A strong demand for increased participation of all levels of personnel in the discussion of plans and problems, and for an opportunity to suggest new methods.
c. Frustration because of de-skilled, repetitive jobs which too narrowly restrict the range of interests and talents an individual can exercise on his job.
d. Blocked, or at least inadequate, communication of information downward, of ideas, questions and problems upward.
e. Lack of identification of their own interests with top management's objectives; sometimes a lack of sympathy or even suspicion or hostility because of a feeling that management has no interest in people as such.

After such an audit, and analysis of the findings, management proceeds to set up channels of communication specially tailored to meet its needs. These may vary in extent and formality all the way from organized systems of representative management in which supervisors and employees participate in management's councils (as in the McCormick Company of Baltimore) to a program of supervisory and employee training conferences or simple periodic supervisory and employee meetings with top management personnel. Direct, face-to-face communications have been found to be the essential, but supplementary devices such as suggestion systems, in-plant broadcasting networks, and written communications ranging from letters from the company president to local plant-community newspaper advertising are also being used to good effect.

Whatever the method of analysis or the techniques developed, advanced management in America (which includes among others such leaders as A.T.F. Incorporated, American Telephone & Telegraph Co., General Electric Company, Johnson & Johnson, Lever Bros. Co., and Standard Oil (New Jersey)) is seeking the same objective; to restore communication between itself and its supervisors and employees so that it can meet increasing competition through the cooperative effort of an effective organization of people who understand the need and want to help. Increased efficiency, higher productivity, lower waste and costs, and improved quality have been the direct result.

Pensions and Profit Sharing

by E. L. HAMILTON, B.Com., C.A.

Assistant Treasurer, Canadian Industries Limited

The search for security through pension planning is a subject about which every interested group has been extremely vocal in the past few years. The entry of the Federal Government into the pension field on a contributory basis will undoubtedly stimulate further discussion — both verbal and written.

In the midst of all this controversy and with the argument raging between all the interested groups, it is the job of the accountant to maintain a balanced approach to this problem of pension planning, to seek out the pertinent facts applicable to his particular company, and to translate these facts into cost measurements and other standards for presentation to administrative management.

The author of this paper discusses some of these pertinent facts in the field of pension planning from the point of view of the industrial accountant whose main interest is in the financial effect of any such programme.

Profit-sharing Plans

In order to clarify the limits of our discussion, I would like to mention profit sharing plans first and then only in a very brief manner, since they are comparatively few in number in Canada and, with one or two important exceptions, are not used to provide retirement benefits.

Profit sharing plans may be designed for the distribution of a share of earnings immediately (the more common form) or for a deferred distribution by way of retirement benefits. Plans providing for immediate annual payments to participants have no retirement function and are therefore outside the scope of our subject this morning. Plans which provide for deferment of distribution of profits until retirement are similar in many respects to the more usual type of pension plan with contribution benefits based on individual earnings.

Historically, labour has been opposed to profit-sharing plans — basically, I believe, because they are likely to gain popularity in boom times but cannot withstand the pressures of a depression period, and also because, being based on the variable factor of annual profits, — they provide relatively uncertain benefits and do not have the apparently fixed obligation on the

part of the employer that a contribution based on wages seems to infer. It cannot be emphasized too strongly however that, regardless of the basis on which an employer's contribution is made, the prime essential of any successful employee pension plan of any type is a healthy and profitable business operation. Contributions to a pension plan which are based on salaries and wages still have their origin in the revenues of the business, and an unprofitable enterprise can no more make contributions based on employee's earnings than it can divide non-existent profits.

Successful profit-sharing plans require a very high degree of co-operation and understanding between management and labour and they are therefore more generally suitable to small or medium sized businesses where it is possible to have close, and even personal, relationships between the employees and the owners or managers of the business. There are, as I have said a few notably successful profit sharing plans in Canada but pension plans of other types are in the majority and are increasing rapidly in numbers and in employees covered. For these reasons, I propose to direct my further remarks primarily towards pension plans which are *not* based on profit-sharing as a method of contribution.

Before leaving this subject, I would like to refer to an article in the May 1951 issue of the Labour Gazette which summarizes the results of an I.L.O. study of profit sharing plans. Two extracts are of special interest.

Growth of Pension Plans

The concept of pensions is not at all new and as far back as the 17th century, history records gratuitous payments to individuals in recognition of services rendered, usually to the State. Industrial pension plans, as we understand them to-day are, however, a relatively recent development, and at a meeting I attended recently in the States, the following figures were quoted to illustrate the growth of private pension plans in the United States:

> With practically no plans prior to *1900,* there were only *400 plans in 1929,* and as late as *1945* there were less than one thousand plans with *one half million* persons covered. By *1950,* however, *thirteen thousand* plans were in force with *ten million* persons covered.

In Canada to-day there are over *four thousand* industrial pension plans in existence which cover a total of more than *one*

million workers or almost one third of the industrial working force. The full significance of these figures becomes apparent when it is realized that nearly all of these plans were introduced in the last *30* years and *75%* of them were instituted after *1940.*

The growth of pension plans in this country is, I believe, essentially due to a changing social concept which has been brought about by a number of factors — two of the more important being, first,

> *the trend to urbanization and industrialization* and the consequent decline of the agrarian type of family unit which in the past made its own provision for the care and needs of the aged. And second,
> *the growth of the old age group in the population.* The average age of the population has been rising steadily in recent years and assisted by the progress of medical science, the number of people in the old age group is increasing in proportion to the rest of the population. In Canada to-day there are some *1,101,000* persons aged *65* or over. In *20* years it is estimated that this number will be up by about *50%* to approximately *1,750,000.* Similar estimates for the United States indicate that the over *65* group which to-day represents 7-10% of the total population will represent almost *20%* in *1980.*

Pensions and Industrial Employment

The demands for security in old age have been accentuated by the insecurity generated by two global wars and a severe depression all in one generation, and the pension idea has been given even greated urgency by the spectacular rise in the cost of living at a time when saving and accumulation of capital in any form is made more difficult by a steadily mounting tax bill. It is against this background that pension plans in various forms have become important as a condition of industrial employment.

Pensions are a Long Term Commitment

The success of any private pension plan depends to a large extent on the ability of the company to support it financially in depressed periods as well as in periods of profitable operations. A pension plan is necessarily a long term proposition and it should be obvious that we as accountants must understand the implications of the pension commitments made by our com-

panies. To do this, I suggest that we consider some of the basic features of a retirement programme. These points that I shall mention should be considered in the light of circumstances applying to your own employee group but in each case the final decision reached on each of these points will have an important bearing on your total pension costs.

Questions to be Answered

Employers are being asked to-day to provide retirement benefits in specific amounts of from say *$50 to $100* a month, at a definite retirement age, perhaps *65*. This may seem to be a fairly straight-forward demand — yet instead of deciding whether to pay *$100* per month to an employee when he attains *65* years of age we are really faced with a series of complex questions including among others:—

"What shall the age for retirement be"?

"Should the plan be contributory or non-contributory"?

"Should rights to benefits vest in the employee before retirement"?

"Should the plan provide disability and death benefits"?

"How much should the pension be"?

"How will the plan be paid for"?

"What are the tax problems involved in such a plan"?

These are only the more important questions to be considered and I hope in the time at my disposal to deal at least briefly with them.

Perhaps the most important decision to be made is the first one I mentioned — "What shall the age for retirement be"?

Retirement Age

The question of retirement age may be considered from two points of view, one of which is largely sociological and the other financial. These two considerations must be reconciled but in many cases, regardless of the humanitarian motives of the employer, cost turns out to be the limiting factor in setting the age for retirement. It is obvious that the earlier the age for retirement, the higher the cost of the pension — for example, the annual premium commencing at age *30* for a pension payable at age *60* is about *50%* more than the premium for the same pension payable five years later at age *65*.

Many demands are being made to-day for earlier retirement and as a result the age for retirement has been reduced

in some cases to *60* and even lower ages are now being suggested. To some extent this trend may reflect thinking which developed during the depressed period of the *1930's* but many of the arguments for earlier retirement are based on supposed advantages to the employer. It is claimed that the older employee is less efficient and that keeping him on the payroll is in fact a hidden pension cost. Another argument is that retirement of these employees would result in a clearer definition of pension costs and at the same time provide opportunity for employment and promotion of younger and more productive employees. It is also claimed that the older worker is entitled to retire and to enjoy the fruits of a life time of labour. To make this possible, of course, his retirement income must be sufficient to ensure a comfortable and pleasant existence.

While there is validity in these points, there are some compelling reasons for deferring rather than advancing retirement. The medical profession has produced evidence to show that early retirement has detrimental effects on physical and mental well-being. After a life time of regular working routine, retirement involves major psychological adjustments at an age when we are least capable of change. Most of us would in fact be happier to continue to work as long as we are able to do so.

Improved living conditions and scientific developments have added to our expectation of life. The Department of Health and Welfare has announced that the average life expectancy in this country has increased by *20* years since the beginning of the century. This increased longevity has added to our useful working life, or if we retire, adds substantially to the cost of our pension. For example, a pension of *$100* a month commencing at age 65 is currently valued at about $14,000 while a pension of the same amount at age *60* costs over *$16,000*, and it is possible that these values may have to be increased to make allowance for recent mortality experience. Bearing in mind that advancement of retirement age means a shorter working period in which to accumulate the necessary funds, it will be seen that purely monetary considerations make it difficult to provide adequate pensions at earlier ages. Yet without an adequate pension, early retirement may be a real hardship to an individual with limited savings.

Finally, we have been experiencing during the last ten years an acute shortage of labour and although it is unlikely that this condition will continue indefinitely, it can be economically

wasteful to retire a productive employee at a time when increased output is so essential.

Discussing this problem of retirement age in general terms, Dr. MacIntosh of Queen's University has pointed up the problem by suggesting that if the trend to earlier retirement sets age *50* for retirement and, at the same time, the trend to extended school training sets *25* as the earliest age at which an individual becomes productive, the population between the ages of *25* and *50* will be forced to produce in sufficient quantities to support themselves and the rest of the population. In Canada this working force would amount to about 20% of the total population. While this is a broad generalization, it is all too apparent what would happen to our standard of living in such a situation.

In my opinion there appears to be an excellent case both from the point of view of the welfare of the individual and also from the point of view of financial cost for deferring retirement as long as the individual is physically and mentally able to work and I would suggest that in administering your own plans, careful thought should be given to the possible consequences before agreeing to earlier retirement ages.

Contributory or Non-contributory Pension Plan

The second problem that I wish to consider is whether or not a pension plan should be contributory. In a strict economic sense I suppose that it can be said that all pension costs are paid ultimately by the consumer and that all plans are financed from the same source. The distinction for our purposes however is based on whether or not the employee makes personal contributions to the plan and in using the terms this morning I would like to make it clear that only plans requiring a direct employee contribution are considered to be contributory.

In the pension plans in force to-day, some preference has been shown for contributory plans. There are several reasons for this preference and one of the more important lies in the belief that when a contribution is being made by the employee, he will have a more personal interest in the plan and may appreciate more fully the cost of providing benefits. It is also possible that an employee contribution, assuming it is roughly equal to that of the employer, may serve as a deterrent for unreasonable demands for higher pension benefits through making employees realize what pensions do in fact cost.

Another consideration in contributory plans is the fact that the benefits purchased by a combined employer-employee contribution are greater and therefore more generally satisfactory in the amounts of pension paid. In some cases it may even be considered necessary to have an employee contribution to help provide the desired level of benefits.

Non-contributory pension plans however have been favoured by some because all employees are eligible for pension without being required to make a personal contribution, and as a result the entire employee group will automatically be covered by the plan thus ensuring at least a minimum retirement income to those eligible. That this can be an important factor is shown by the experience of one small company, with which I am familiar, which introduced a contributory plan with very favourable provisions and yet five years later had less than one third of the employees participating. Because of this lack of participation, the company changed its plan to the non-contributory type.

Another argument for non-contributory plans is that under such a plan an employee is perfectly free to make personal savings in any desired form, such as insurance, real estate, bonds or other securities. Our personal needs and preferences vary widely and it may be most inconvenient to be required as a condition of employment to make a contribution under a pension plan.

Also if a plan is financed entirely at the expense of the company it may be possible to exercise greater control over the management of the plan and investment of the pension funds, and to vary the provisions of the plan from time to time according to the needs of the employee group and in line with current developments in the pension field.

The majority of plans in Canada to-day are contributory. Recently, however, there has been a trend to non-contributory types of plans — especially in the United States — partly at the insistence of organized labour, which believes, illogically, I think, that in this way management is being forced to foot the entire bill for pension benefits. Actually of course, the consumer does so, no matter what type of plan is involved.

At the present state of development in pension planning, I can offer no very conclusive arguments in favour of either contributory or non-contributory plans. The introduction of a Government-sponsored contributory scheme may very well have far reaching effects on the ability or the desire of employees to

continue contributions to a private plan and the ability of employers to do so. Probably the final argument on this question will have to wait on the implementation of the Government plan to which all private plans will in due course have to be adjusted.

Vesting

Another feature of pension plans which has recently received a considerable amount of attention has to do with whether or not an employee is entitled to pension rights before he reaches retirement age. At one time pensions were considered a gratuitous and perhaps paternalistic payment made by the employer in recognition of long and faithful service of an employee and no responsibility was recognized for employees who terminated employment before reaching retirement age. More recently this concept has changed and it is now claimed that the employee acquires the right to pension during his period of employment, and in the event that he decides to change his employment, he should be permitted to take along with him (as a personal right) the pension benefits which have accrued up to the time of his leaving. As a result, a number of pension plans now in effect provide that the right to contributions vests in the employee after a certain period of service, frequently *20* years.

One of the main arguments used in favour of vesting is that the absence of vesting provisions restricts the mobility of labour. It is difficult to generalize on this statement since different employee groups vary considerably both in age distribution and in their tendency to move from one employer to another. It appears however that the greatest movement of labour takes place during the early years of employment when the vested pension benefits would be small. It seems unlikely therefore that absence of vesting would have any seriously restrictive effect on the mobility of most workers and certainly not on those in the younger age groups.

In general employees do not move from one job to another after reaching about fifty years of age and from this time onwards the effect of vesting on cost is not substantial. Before this age vesting provisions increase the costs of the pension plan and it is important to realize that the cost of vesting after *10* years service may be several times the cost of vesting after *20* years. Since the actual age at which employee turnover becomes negligible will differ for each employee group, it is important that the

cost of vesting be determined with respect to your own group of employees.

Vesting is becoming more general in new plans at the present time and the question to be settled is not so much — should it be included in the plan — but rather — what measure of vesting can we afford to include. Vesting can add very substantially to your pension costs and I would strongly suggest that before adopting any vesting provision, you determine the cost of the proposed vesting commitments over a long period having regard to your own turnover experience.

Disability and Death Benefits

We occasionally hear it claimed that pension plans should also provide disability and death benefits and I would like to say a few words about these benefits. Retirement benefits or pensions are intended to provide some measure of assistance to employees who have come to the end of their useful working life. Retirement *due to disability however* generally occurs at much earlier ages and while the individual is probably in greater need of assistance, any pension payable is generally substantially smaller than if he had worked to normal retirement age.

In the case of disability benefits (in fact with all benefits) our humanitarian instinct must be tempered by our ability to pay. The cost of disability benefits may be extremely high and there is no sure method of estimating accurately the cost of such benefits. And owing to this uncertainty, disability benefits should only be included in a plan when it appears certain that there will be ample funds to meet any unusual incidence disability payments.

Death benefits have a different purpose from retirement benefits and I do not propose to discuss them other than to suggest strongly that they should be considered as a part of the whole employee benefit programme entirely separate from the pension plan.

Amount of Pension

It might seem that the first thing to consider should have been the amount of pension. I have chosen to discuss these other features first because they are factors which affect the total cost and which must therefore be considered in conjunction with the basic pension formula from which the amount of pension is derived.

Essentially, the amount of the pension under any type of plan boils down to "what can the company afford" and it must be born in mind that commitments must be made which will apply in less successful as well as in profitable periods. A successful retirement programme must be designed to weather all financial storms. In setting the amount of pension, we should ensure that the proposed scale of benefits, including provision for disability or vesting, is within our means. And again the cost of these benefits will be affected by the make-up of each employee group.

Formulae for Calculating Pensions

There are various formulae in use for calculating the amount of pension payable but usually the amount will be:

(a) a fixed dollar amount for each individual with prescribed service requirements, or,

(b) a fixed percentage of average earnings for each year of service.

In the second case, the percentage of wages is about *1%* for most non-contributory plans and *1½% or 2%* for contributory plans. Average remuneration for pension purposes may be calculated for the full period of employment or only for a specified number of years (frequently the last 10 years of employment). Where earnings are based on the final *10* years, the employee is given some protection against the effects of inflation but it is of course more difficult to forecast accurately the ultimate pension costs.

The amount of pension set as a maximum or minimum in a plan has a direct bearing on pension costs — the higher these limits the higher the cost. This is particularly true in the case of the minimum which should be set after due consideration of any government benefits payable under the proposed Federal pension scheme.

The formulae chosen for a particular plan will depend on the general needs of the employee group. Our responsibility as accountants is to ensure that the proposed benefits are within the financial means of the company. Having defined the benefits and pension formula we can then estimate our pension costs by recourse to the assistance of an actuary.

Financing the Plan

Other matters to be considered in connection with a retirement programme include the question of financing the pro-

gramme and the effect of taxation. Both of these subjects are involved and entail a special study in themselves.

Briefly, however, methods of funding or financing the plan vary from the pay-as-you-go basis where benefits are paid directly from current income, to the fully insured type of plan where provision for pensions is made by the purchase each year of annuities payable on retirement. Obviously, the first method is the most flexible from a point of view of finance and also involves the greatest element of risk, while the lateer provides the greatest degree of protection but leaves the employer little opportunity to vary or control his funding arrangements.

The first concern in deciding on funding arrangements should of course be that the fund is sound and secure. We must be able to fulfil our commitments when pensions become due and in this connection government or insurance annuities provide the best guarantee. Interest or yield on investments however can have an important effect on our pension costs and it may be desirable to adopt some form of irrevocable trust to obtain the benefits of higher interest rates. The size of the fund and number of employees covered will also have some bearing on funding arrangements since unexpectedly heavy claims experience could have disastrous effects on a small fund.

With regard to taxes it may be said generally that a pension plan must be approved by the tax authorities and if it meets the requirements, contributions to the plan, both by the employer and employee, are deductible within certain limits for tax purposes. The regulations with regard to profit sharing plans are somewhat different but tax allowance is also made in the case of approved plans.

Conclusion

This has been, I am afraid, a rather general treatment of a very difficult problem. I hope however I have indicated some of the factors to be considered in adopting or administering a retirement programme. There is no simple answer to the pension problem and each plan should be designed to suit the needs of the particular employee group.

In designing or administering your own plan, examine each factor carefully in the light of your particular circumstances and bearing in mind the continuing cost of each feature and your ability to meet this cost.

Facts and Figures for Collective Bargaining

by R. H. PEROWNE

Manager, Industrial Relations Department,
Dominion Textile Company Ltd.

Next to organizing, collective bargaining is the trade union's most important function. The larger unions have skilled negotiators who are armed with facts and figures relating to most industries and are well advised by experts on such issues as social insurance, pensions and similar benefits. Management should come to the bargaining table at least as well prepared as the unions. This paper suggests some of the facts and figures which the chief financial officer should have available and how they should be presented for the benefit of the company negotiating committee.

Introduction

While there are many aspects of this subject which could be dealt with, I have chosen to look at this question from the viewpoint of the financial or accounting personnel, and therefore wish to stress the relationship and teamwork which I believe should exist between the Accounting Department and the Management negotiating team when preparing for Union negotiations.

First, a few facts and observations of a general nature concerning collective bargaining.

When we consider that there are over fifteen million workers organized in the United States, and over one million organized workers in Canada — nearly all of whom are working under collective labour agreements — it becomes abundantly clear that collective bargaining is a most important factor in the financial and industrial framework of our country. The effects of this process of collective bargaining as we know it — that is, union negotiations, conciliation and arbitration — are being felt to an ever increasing extent by all sections of the community — the public, the owners, management, employees and the union.

Union organization is now big business — a highly competitive business. Sometimes this competition necessarily ends up as competition to exact larger concessions in one form or another from management, and in an effort to maintain or increase their numerical strength the more powerful labour organizations frequently feel obliged to operate on the fundamental

premise that employees should be taught to mistrust the boss and to expect at all times the existence of ulterior motives. The object of much union literature which we read to-day is to promote solidarity by closing the minds of the employees to the possibility that employers can have any virtues whatsoever.

The day is long past when the average employer can sit down with each of his workers and make certain on a continuous basis that each employee is getting his just desserts from his foreman and the Company. For that reason, I feel that some form of bargaining collectively is necessary. It is most unfortunate, however, that in many instances union leaders have deemed it advisable to make demands far in excess of what they hope to obtain from management. Perhaps management has brought this situation upon itself by steadfastly refusing to make concessions and accede to reasonable union demands in earlier years. The process, however, whereby the union makes excessive demands and thereby forces industry to counter with offers which are lower than it thinks it can afford — which seems to be a necessary procedure for most companies under the present usage of collective bargaining — has made contract negotiations degenerate to a point where they can be likened to a game of stud poker where the stakes are high and each player conceals his ace-in-the-hole until the most opportune moment.

It seems obvious that so long as management is going to be faced each year with costly demands from the unions, stability in labour relations will continue to elude most of industry. We have seen attempts during the past year to overcome this situation, particularly in the automotive industry, where contracts of longer duration have been signed. The famous General Motors five-year contract is, of course, the outstanding example. There is no question, however, that in most instances under present conditions management has to take account of the fact that at best it is purchasing short-term stability, and management cannot afford to institute various employee welfare programs on its own initiative when it has no assurance that it will be able to afford the price of settlement when the next contract comes up for renewal.

Purpose of Labour Agreements

The essential purposes of an agreement between an employer and the union or unions representing his employees are to set the wages, hours and working conditions governing em-

ployment in his plant; to prevent strikes and lock-outs; and to insure the peaceful settlement of all grievances or other difficulties that may arise between management and workers. In recent years, of course, the so-called "fringe" issues have assumed central importance — such things as group insurance, increased vacations, sick leave, Christmas bonus, pensions, and the like.

A study of the labour agreements which have been signed recently, both in the United States and Canada, points to the ever increasing scope of collective bargaining. Terms such as "escalator clause", "annual improvement factor", "open end wage clause", are now commonplace in labour contract terminology, however generally speaking they were unknown little more than a year ago. It is of interest to note the wide range of subjects which are now considered appropriate for inclusion in some bargaining agreements. Thus, you find a chemical company signing a union pact which contains a clause on the problem of the employee who sleeps on the job. The clause reads as follows:

> "An employee who falls asleep on his job will be subject to discharge. He will be judged guilty of sleeping:
>
> (1) If a foreman finds him lying down while on duty; or
>
> (2) If a foreman finds him with his eyes closed and he fails to waken when the foreman turns a flashlight in his eyes at a distance not greater than fifteen feet."

Another company gives *three days off* for the death of a wife, brother or sister; however, if the mother-in-law dies you only get two days off. The contract does not state whether the two days is to mourn or to celebrate . . .

The A. F. of L. Butchers' Union wangled a clause whereby "members of the union and their families will receive free eyeglasses — if they need them." I can hear Clement Attlee saying — "What! No wigs or false teeth?"

You can readily see from these few examples that management should arrive at the bargaining table prepared for any eventuality.

Problems of Collective Bargaining and Their Relation to the Chief Financial Officer

The word "bargaining" implies haggling. It involves shrewdness, self-confidence, ethical and sometimes unethical coercion, persuasiveness, compromise, integration and indomitable pa-

tience. It requires, as any other business deal, knowledge of what is involved, how much it costs, and what the benefits to be gained are.

Next to organizing, collective bargaining is the union's most important function. The larger unions have research departments and they hire experts to advise them on such issues as social insurance, pensions and similar benefits. They send their ranking local leaders and often their international representatives to the bargaining table — people who are skilled negotiators, armed with facts and figures and terms of settlement which have been reached by the companies not only in your industry but in most other industries.

Common sense dictates that management should come to the bargaining table at least as well prepared as the union, and while individual companies might differ as to the advisability of presenting certain facts and figures to the union, nevertheless the information should be readily available if required. If you cannot stand up to the union's arguments and have nothing to offer in rebuttal, there will be a further lessening of the union's trust and faith in management, and the union will seriously doubt your sincerity and good intentions. The basic prerequisite to successful collective bargaining, I suggest, is an atmosphere of confidence and trust.

A recent study by the Industrial and Labour Relations School at Cornell University for the Controllership Foundation — which, I understand, is the research arm for the Controllers' Institute of America — clearly indicates that the chief financial officer of the Company—whether his title is Comptroller, Treasurer, Secretary or Chairman of Finance Committee — is going to be asked with greater frequency to take part in this important phase of management in helping to supply the Company negotiator with facts and figures for collective bargaining. I might add that from here on I will usually refer to the Comptroller as the chief financial officer of the Company.

With the important developments in collective bargaining, particularly since the end of the war, and the possible consequences of some union demands, it has become increasingly important that management prepare itself to measure quickly and accurately the cost of these demands. Across the board wage increases can be calculated easily, however demands for a change in the wage structure, vacations, pensions, health programs and other fringe benefits are much more complicated.

Because the Comptroller maintains basic records and his office has the trained staff and equipment to compile and analyze financial facts and figures, companies will rely more and more on the specialized knowledge of his department for analysis of the financial impact of the labour agreements.

The Comptroller, of course, should know the type of information that the negotiator needs, and the negotiator should be informed concerning the information the Comptroller can furnish. To accomplish this requires a spirit of teamwork and co-operation between the Comptroller's and negotiator's departments, and there should be a formal and close informal relationship between the two.

In most companies the financial officer has had minimum participation in collective bargaining. He has furnished information if so requested by the negotiator, but was not expected to anticipate the type of facts and figures that would be needed in negotiations. He was rarely asked to serve on the management planning committee for negotiations and on these matters was generally kept in the background. In such situations it was necessary for the negotiator to establish his own statistical unit and maintain records that often duplicated some of the material that was available in the Accounting Department and for the negotiator to interpret for himself the internal and external statistics that were needed in bargaining.

At the other end of the pendulum, the Cornell University study to which I referred earlier reveals that in those companies where the financial officer assists the negotiator most actively, he performs many functions in addition to the basic record keeping and reporting. He serves as a mèmber of the Policy Committee on collective bargaining. These policy decisions are made by top management, and the negotiator is authorized to bargain within the limitations fixed by this policy. In co-operation with the negotiator, he anticipates the type of information that will be needed at the bargaining table and takes steps to have this material available. He prices the union's demands and analyzes the present contract, keeping cost records on various provisions, and makes suggestions to the negotiator as to desirable changes from the Company's viewpoint. He participates in pre-negotiation sessions and serves on the negotiating committee, and if required presents and interprets certain facts and figures during discussions with the union. He keeps the negotiator informed currently of the type of information that his office could

furnish, and maintains stand-by crews to cost compromises that are made by both parties as negotiations progress. In some of the larger companies where Comptroller participation is most pronounced the Comptrollers employ statisticians, economists and actuaries, either on a full time or retainer basis for the purpose of preparing and interpreting Company plans for collective bargaining.

I have endeavoured to indicate up to this point the growing impact of collective bargaining on our economy and the increasing part which I feel the financial officers and their departments will have to play in these bargaining questions. We have seen the two extremes of Comptroller participation where in many companies he remains almost completely out of the picture and in others he is one of the most vital cogs in the negotiating machine.

Information Which Should be Supplied by Accounting Department

Let us turn for a few minutes to review some of the statistics and information which can in most instances be supplied by the accounting personnel to the negotiating committee. Remember, of course, that the Industrial Relations Department — which usually conducts the negotiations or acts in an advisory capacity to the Company negotiator — will, for its part, conduct a number of surveys and comparative studies of wage rates, working conditions and contract provisions of other companies in similar and unrelated industries.

The information which can be furnished by the Comptroller and his department can be segregated into four main headings:

The financial condition of the Company,
Wages,
Fringe Benefits, and
Costs of Union's demands.

Without wishing to bore you with too much detail, I think we can review some of the items which could be included under these subjects. First, on the *financial condition:* The Comptroller should, of course, present a Balance Sheet, Profit and Loss Statement showing profits and losses before and after taxes. The earnings record and dividend payments of the Company back to 1939 is necessary. I mention 1939 because of the inflated dollar and to keep it on the same basis as the Cost-of-Living index

which is so frequently referred to by the union these days. He should supply the Company's present sales volume, wages and salaries as a percent of sales, and a breakdown of the sales dollar into the familiar pie form to indicate how much went to labour in the form of wages, salaries and other employee benefits. The price structure of the Company's merchandise is of interest to indicate where it has been necessary to increase or decrease selling prices, as is a comparison of the cost of materials to the Company for the last few years.

Under *Wages,* I feel the negotiator is particularly interested in the average hourly earnings, the average weekly earnings, and the average yearly earnings, both including and excluding overtime payments, and showing males and females separately. These figures could be shown alongside similar figures for previous years for comparative purposes, and data should be supplied showing how these rates compare with the current Cost-of-Living and the wage increases or decreases necessary to bring the Company's wages into line with the Cost-of-Living. Productivity per man-hour and productivity per machine-hour for the last few years could also be included in this section.

The total amount spent by the Company on *Fringe Benefits* and the cost of these benefits in cents per hour is essential. Shown separately in this category would be vacation pay, statutory holiday payments, shift premiums, group insurance, pensions, severance pay, and several other items which vary in the different companies.

The *Union's demands* should be broken down separately in cents per hour and the total additional annual cost to the Company estimated, based on the number of employees on the payroll. Considerable caution has to be exercised when costing these demands, for a Union demand for a wage increase usually affects the operating cost of several other clauses in the contract. Thus, if your Company has clauses in its contract which provide for a 10% night shift premium, vacation pay based at 4% of the employee's earnings during the year, 90% base rate guarantee to piece-workers, and pensions determined on a percentage of annual earnings, then the Company must consider the effects of a union demand for a wage increase on each of these four other clauses. When costing union demands, it is important, also, to estimate the cost of giving the same benefits to non-unionized employees or employees covered by other union contracts.

Anticipating Union Demands

Anticipating the issues that are likely to be involved in negotiations is one-half the battle in preparing facts and figures for use by the negotiator and his committee. Union demands can be anticipated by several means:

(1) By consulting the records of previous negotiating sessions, it will be seen that some of the demands are perennial.

(2) From contacts with Union officials concerning the operation of the present contract, a reasonable idea can be obtained of those clauses which the union will seek to change.

(3) By reading through union literature and speeches.

(4) Through studying agreements reached by the union in other companies.

(5) From reports of Labour-Management services and Employer Associations; and

(6) Last but not least, of course, there are the newspapers and the inevitable grapevine.

The preparation of facts and figures by the various departments of the Company does not necessarily mean that the information will have to be presented to the union at the negotiating table. The attitudes of companies differ on this point, and each has to be governed by the particular circumstances surrounding its case.

You will find some companies that avoid presentation of facts during collective bargaining. They argue that facts concerning the Company would be irrelevant, for their final settlement with the Union will have to be in line with the pattern of settlements established by other union agreements. They maintain that the factual presentation would make no impression on the union and feel that the majority of union negotiators do not understand or do not care to understand the technical facts of modern business operations. There are other cases where the Company has been enjoying a healthy profit picture which the management believes to be only temporary, and a detailed presentation of the Company's accounts during the bargaining might raise more questions which could not be answered convincingly. Or again, when negotiations appear likely to fail and arbitration proceedings are expected, companies often feel that a full presentation of facts should be withheld until the decisive proceedings before the Arbitration Board.

There are other companies — probably the majority — which adopt a "wait and see" policy. Such companies aim to present only those facts which seem to be directly useful in refuting union arguments, and while they avoid taking the risk of revealing any facts which might have an unfavourable repercussion on the Company, they nevertheless will present facts to prevent an unjustified union argument to go by default. The main weakness of this defensive tactic is the fact that all the union has to do is to make a few exaggerated statements on subjects of its choice and the Company is forced to choose between accepting the union's guess or giving the union the facts is wanted in the form of a Company refutation.

An increasing number of companies are taking the initiative in giving full and complete presentation of facts and figures to the union. Companies that do this feel that the essential facts regarding the Company's operations are already available to the union and that the union leaders will become more realistic and co-operative if they feel that the Company is taking the initiative in bring them into the picture. Demands for pensions, guaranteed wages or guaranteed employment require a more aggressive attitude and a thorough understanding of facts about the Company and the economy generally.

I believe that everyone in management — particularly you, Gentlemen, in the financial and accounting professions — should recognize and appreciate the ever increasing scope and impact of collective bargaining on our society.

The advisability of presenting certain facts and figures to the union is open to question, however there can be little doubt that the information should be prepared and presented to management. Management must be in a position to properly assess all aspects of the labour contract before determining the course it wishes to steer. Management should know what it wants as well as what it does not want.

In conclusion, I feel that the preparation of certain factual information by the Comptroller is only half the job. To make it complete, he should make certain that his facts and figures are fully understood by the management negotiating team, for it is conceded that ignorance is not confined to only one side of the bargaining table, and neither the union leader nor the personnel officer are necessarily trained to interpret this information.

It is not enough for the financial officers to furnish certain accounting data — they must see that the company negotiator

understands the significance and limitations of the figures used in bargaining and that an accurate interpretation is presented to the union. If they do these things the financial officers and their departments will be making a vital contribution in helping management prepare itself for collective bargaining.

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« STUDENT SECTION »

FUNDAMENTALS OF COST ACCOUNTING

Comments by A. V. HARRIS, C.A., R.I.A.

QUESTION 1 (19 Marks)

The ABC Manufacturing Co. operates a Job Cost System, and the contract of L. Keeping, works manager with the ABC Manufacturing Co., stipulates that he is to receive as manager the following bonuses, if earned:

10% of any amount that the manufacturing overhead cost of the manufacturing division may fall below 25% of the total manufacturing cost;

15% of any amount that indirect labour cost may fall below 30% of direct labour cost of the manufacturing division.

The amount of the bonuses are not to be included in the expenses used in computing the bonuses earned.

From the following list, you are requested to prepare a properly classified tabulation of the various costs, and to compute the bonuses to which the works manager is entitled.

Sandpaper	$ 400.00
General Administrative Salaries	13,000.00
Shop Supplies	12,000.00
Foremen's Wages	18,000.00
Rent of Sales Office	13,000.00
Salesmen's Salaries	33,000.00
Assembly Force Wages	55,000.00
Stainless Steel	900.00
Insurance, Finished Goods	1,700.00
Advertising	29,200.00
Fuel Oil for Heating	5,000.00
Engineer's and Foremen's Wages	10,000.00
Fire Insurance, Factory	2,000.00
Bench Hand Wages	17,000.00
Angle Iron Bars	25,000.00
Factory Time Cards and Cost Forms	1,200.00
Travelling Expenses — Salesmen	9,000.00
Lubricants	500.00
Machine Operators' Wages	38,000.00
Taxes, Factory Building	3,000.00
Gears and Sprocket Wheels (Purchased Parts)	9,000.00
Total	$295,900.00

SOLUTION TO QUESTION NO. 1

ABC MANUFACTURING COMPANY — ANALYSES OF COSTS

Description	*Direct Manufacturing Costs*		*Indirect Manufacturing Costs*		*Total Mfg. Costs*	*Selling and Admin. Exps.*
	Material	*Labor*	*Indirect Labor*	*Other*		
Sandpaper				400.	400.	
General Administrative Salaries						13,000.
Shop Supplies				12,000.	12,000.	
Foremen's Wages			18,000.		18,000.	
Rent of Sales Office						13,000.
Salesmen's Salaries						33,000.
Assembly Force Wages		55,000.			55,000.	
Stainless Steel	900.				900.	
Insurance, Finished Goods						1,700.
Advertising						29,200.
Fuel Oil for Heating				5,000.	5,000.	
Engineer's and Foremen's Wages			10,000.		10,000.	
Fire Insurance, Factory				2,000.	2,000.	
Bench Hand Wages		17,000.			17,000.	
Angle Iron Bars	25,000.				25,000.	
Factory Time Cards and Cost Forms				1,200.	1,200.	
Travelling Expenses — Salesmen						9,000.
Lubricants				500.	500.	
Machine Operators' Wages		38,000.			38,000.	
Taxes, Factory Building				3,000.	3,000.	
Gears and Sprocket Wheels (Purchased Parts)	9,000.				9,000.	
	34,900.	110,000.	28,000.	24,100.	197,000.	98,900.

Summary of Costs

Direct Material	34,900.	
Direct Labour	110,000.	144,900.
Indirect Costs		
Labour	28,000.	
Other	24,100.	52,100.
Total Manufacturing Costs		197,000.

STUDENT SECTION

SOLUTION TO QUESTION NO. 1

Computation of Works Manager's Bonus

(a) Bonus based on total cost.

25% of total manufacturing cost		
$197,000. @ 25%	$49,250.	
Indirect Costs, per schedule	52,100.	
Amount subject to 10% bonus	NIL	

(b) Bonus based on direct labour cost.

30% of direct labour cost		
$110,000. @ 30%	$33,000.	
Indirect Labour, per schedule	28,000.	
Amount subject to 15% bonus	5,000.	
Bonus		$ 750.

COMMENTS: QUESTION NO. 1

This problem was intended to test the candidate's knowledge of classification of expense items and calculation of bonus, and appeared to give the students very little trouble. Form of presentation was not too good and few students attempted to set forth the data in statement form — which could be accomplished very easily.

It is obvious that a few of the items might have been classified other than as shown above and due allowance was made for reasonable variation in marking the papers.

QUESTION 4 (23 Marks)

Covers Limited has a manufacturing plant with 5 producing departments. The company has a system whereby it can correctly allocate to these departments the direct material and direct labour costs. All other factory overhead expense is accumulated, and the company, after considering the amount of work which has gone through each department, assigns arbitrarily the factory overhead.

A summary of the costs and their allocation for the year 1950 is as follows:

	Direct Material	*Direct Material*	*Factory Material*
Producing Dept. A	$40,000.00	$14,000.00	$24,000.00
Producing Dept. B	....	8,000.00	16,000.00
Producing Dept. C	8,000.00	6,000.00	12,000.00
Producing Dept. D	2,000.00	4,000.00	6,000.00
Producing Dept. E.	....	5,000.00	8,000.00
	$50,000.00	$37,000.00	$66,000.00

The Company executive have accumulated the direct labour hours and machine hours for the producing departments, which in respect to the above costs were as follows:—

	Dept. A	*Dept. B*	*Dept. C*	*Dept. D*	*Dept. E*
Direct Labour Hours	11,000	10,000	6,000	3,000	2,000
Machine Hours	8,000	8,000	800	1,000	200

You have been consulted by the company and been requested to submit to them, using their figures, as many feasible schemes for allocating the factory overhead according to correct accounting procedure as you know. They also wish you to reccommend *one* of the methods, which in your opinion would suit their requirements.

Required:

Prepare the necessary report.

SOLUTION AND COMMENTS

It should be noted that the question requires a report. Students were, in many cases, reluctant to do more than set forth a memo of some of the points. Actually, they did not follow the requirements, and lost marks accordingly.

The report should observe the characteristics of good report-writing, such as proper address, date, use of headings where necessary, etc. The report would include such figures as would develop manufacturing expense rates for the entire plant operation, based on

(a) Labour Cost
(b) Direct Labour Hours
(c) Machine Hours

Students who endeavoured to use the arbitrary overhead assigned figures were incorrect in so doing, as that was the difficulty of the Company — the factory overhead column was arbitrary. Actual rates as mentioned above were the better solution, and the direct labour cost and direct labour hours were probably the better bases of the three. Other bases such as allocations based o ndirect material or prime cost were not suitable for the obvious reason that some departments did not have any material costs.

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